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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

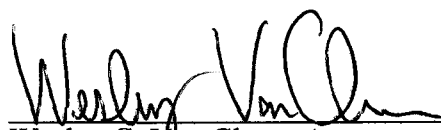
IN THE MATTER OF THE APPLICATION OF
SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. FOR A HEARING TO
DETERMINE THE FAIR VALUE OF ITS
PROPERTY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE
RETURN THEREON, TO APPROVE RATES
DESIGNED TO DEVELOP SUCH RETURN
AND FOR RELATED APPROVALS.

DOCKET NO. E-01575A-08-0328

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
of Staff Witness William Musgrove in the above-referenced matter.

RESPECTFULLY SUBMITTED this 10th day of April, 2009.


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Arizona Corporation Commission
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Arizona Corporation Commission
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Phoenix, Arizona 85007

Arizona Corporation Commission

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SURREBUTTAL

TESTIMONY

OF

WILLIAM MUSGROVE

DOCKET NO. E-01575A-08-0328

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THEREON, TO APPROVE RATES DESIGNED
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APRIL 10, 2009

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KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

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BOB STUMP

Commissioner

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DOCKET NO. E-01575A-08-0328

SURREBUTTAL

TESTIMONY

OF

WILLIAM MUSGROVE

ON BEHALF OF STAFF

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 10, 2009

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WHM SURREBUTTAL	ATTACHMENT 1
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**EXECUTIVE SUMMARY
STAFF SURREBUTTAL TESTIMONY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
(DOCKET NO. E-01575A-08-0328)**

On June 30, 2008, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative") filed with Docket Control its first general rate increase Application in almost 16 years. The Cooperative proposed a revenue increase in the amount of \$10,881,590, or an increase of 11.75 percent. Staff recommends a \$6,353,795, or 6.78 percent, revenue increase.

On February 17, 2009, Staff docketed its Direct testimony regarding revenue allocation and rate design, tariff changes, service charge fees, unbundled tariffs and the need for a bill estimation tariff.

On March 9, 2009, SSVEC docketed its Rebuttal testimony in which it identified three areas of disagreement with Staff's Direct testimony regarding rate design matters. Staff's Surrebuttal testimony responds to the Cooperative's Rebuttal testimony on the following issues:

1. SSVEC does not agree with Staff's recommended changes to customer charges and continues to support the higher customer charges originally proposed by SSVEC.
2. SSVEC believes that Staff's recommended rate for Residential Time-of-Use ("TOU") customers does not send the appropriate price signal and will be ineffective.
3. SSVEC has concluded that Staff's proposed service charge fees are not appropriate and do not reflect the actual cost of providing the services.

Staff's recommendations are summarized on pages 8-9 of its Surrebuttal testimony.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William Musgrove. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Will you briefly describe the nature of your work relationship with the Arizona Corporation Commission?

A. I am an independent contractor providing utilities consulting services to the Arizona Corporation Commission ("Commission" or "ACC") Utilities Division Staff ("Staff").

Q. Did you submit prepared Direct Testimony in this Docket on behalf of Staff?

A. Yes.

Q. Are there any changes in your Direct Testimony as docketed with the Commission on February 17, 2009?

A. Yes. Four typographical errors need to be corrected: (1) at page 3, line 9 the filed percent increases of 30 percent and 29 percent should be changed to 27 percent and 26 percent, respectively; (2) at page 5, line 22 the filed percent increase should be changed from 27.38 percent to 23.23 percent; (3) at page 10, line 20 the filed revenue in the amount of \$948,965 should be changed to \$948,273; and, (4) at WHM-1, p. 1 the proposed on-peak energy rate for residential TOU customers should be changed from \$0.13477 per kWh to \$0.16572 per kWh.

Q. Are there any other changes to your Direct Testimony?

A. No.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. Staff will address the three rate design-related issues raised by Mr. David Hedrick in his rebuttal testimony filed on behalf of Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or "Cooperative"): (1) SSVEC does not agree with Staff's recommended changes to customer charges and continues to support the higher customer charges originally proposed by SSVEC; (2) SSVEC believes that Staff's recommended rate for Residential Time-of-Use ("TOU") customers does not send the appropriate price signal and will be ineffective; and, (3) SSVEC has concluded that Staff's proposed service charge fees are not appropriate and do not reflect the actual cost of providing the services.

CUSTOMER CHARGES

Q. Why has Staff recommended monthly customer charges that are generally lower than customer charges proposed by the Cooperative?

A. Staff's recommendations are driven and supported by data contained in the record and recognition of the impact of customer charge rate increases on rate payers. In addition, Staff did not lose sight of the fact that more than sixteen years will likely have passed since the last rate case before rates approved in this Docket are in effect. However, from rate payers' perspectives, it is impossible to implement conservation measures or more prudent utilization of energy to reduce fixed monthly customer charges. For example, if SSVEC's proposed increase to the residential customer charge was approved, residential customers would face an increase of nearly 67 percent to the fixed component of their monthly bills. Staff's proposed residential customer charge increase in the amount of 10 percent (Direct testimony, WHM-2, p. 1) is much more in line with Staff's overall proposed revenue increase of 6.78 percent (Direct testimony, Schedule CSB-1).

1 **Q. Will Staff please explain how its recommended customer charges were designed in**
2 **this Docket?**

3 A. Staff's recommended customer charges are based upon three basic rate design principles.
4 (1) The principle of gradualism is embodied in the discussion above and in the remaining
5 rate classes' customer charges. Staff believes that it is unreasonable to expect customers'
6 budgets to absorb increases that, excluding lighting, un-metered and pre-metered power,
7 average 63.08 percent in one step. By comparison, Staff's recommended customer charge
8 increases average 9.98 percent. Another consideration is that the Cooperative's proposed
9 increase for residential customers would recover nearly 54 percent of customer charge-
10 related costs that were accumulating over a fourteen-year period. Staff's recommended
11 increase represents recovery of approximately 35 percent of customer charge-related costs,
12 which Staff believes is a more reasonable pace toward recovery of SSVEC's costs. (2)
13 Staff believes that a second rate design principle to consider is the fact that SSVEC
14 requested an increase in total operating revenues in the amount of approximately \$10.9
15 million (Schedule N-1.0) compared to Staff's recommended revenue increase in the
16 amount of approximately \$6.4 million (Schedule CSB-1). In designing its rates, Staff had
17 to take into consideration the fact that SSVEC's proposed rates were designed to collect
18 approximately \$4.5 million, or 70 percent, more in operating revenues compared to Staff's
19 \$6.4 million rate design goals. (3) In light of the discussions above, Staff concluded that
20 the most equitable allocation (a third rate design principle) of its proposed revenues was to
21 honor the allocations proposed by the Cooperative, but with approximately \$4.5 million
22 less to allocate than was proposed by the Cooperative. Again, using the residential rate
23 class as an example, approximately 12 percent of proposed revenues were allocated to the
24 residential customer charge by SSVEC (Schedule N-2.0, p. 1) compared to the
25 approximately 12 percent of proposed incremental revenues that Staff allocated to the
26 residential customer charge (Direct testimony, WHM-1, p.1).

1 **Q. What are Staff's recommendations regarding its proposed customer charges as they**
2 **were designed in this Docket?**

3 A. Supported by the discussions above, Staff recommends that its proposed customer charges
4 be approved as originally filed.
5

6 **RESIDENTIAL TOU RATE DESIGN**

7 **Q. Will Staff please discuss its proposed rate design for the residential TOU rate?**

8 A. In reading Mr. Hedrick's Rebuttal testimony in preparation for Staff's Surrebuttal
9 testimony, Staff recognized that an erroneous on-peak kWh rate was filed with Staff's
10 Direct Testimony. WHM Surrebuttal Attachment 1 ("Attachment 1") corrects this error
11 and increases the originally filed rate from \$0.13477 per kWh to \$0.16572 per kWh.
12

13 **Q. Does the proposed revised increased rate for on-peak residential TOU sales**
14 **necessitate any changes elsewhere in Staff's Direct Testimony?**

15 A. No. Staff had originally designed incremental revenues for this customer class in the
16 amount of \$2,918. As is clearly shown on the schedule originally filed with its Direct
17 testimony, (WHM-1, p. 1), the total base revenue increase is only \$1,529, which is \$1,389
18 short of Staff's original increase designed for the residential TOU class. A review of
19 Staff's Surrebuttal Attachment 1 correctly depicts the total base revenue increase as
20 \$2,884 creating a de minimis shortfall in the amount of \$34. The original \$2,918 was
21 derived based upon SSVEC's original \$4,881 (Schedule N-1.0) incremental allocation
22 (approximately .05 percent) to the Residential TOU class.

1 **Q. Does the proposed revised rate for on-peak residential TOU sales address all of Mr.**
2 **Hedrick's concerns regarding Staff's proposed residential TOU rates?**

3 A. No. Although Staff's revised proposed on-peak \$0.16572 per kWh rate is very close to
4 SSVEC's revised \$0.167010 per kWh (Surrebuttal testimony, Exhibit DH-13, page 1)
5 proposed on-peak rate, Staff believes that the nearly 13 mill per on-peak kWh difference
6 would move the on-peak rate issue behind SSVEC's three remaining concerns in the
7 following order: (1) excluding SSVEC's customer charge concern that Staff has already
8 addressed above, there remains a difference regarding the respective proposed off-peak
9 kWh rate; (2) SSVEC and Staff disagree on the expected number of on-peak and off-peak
10 residential TOU kWhs; and, (3) SSVEC and Staff disagree on the proposed inclusion of
11 Sunday on-peak hours (1 p.m. through 7 p.m.) for residential TOU customers.
12

13 **Q. What is the basis for Staff's proposed off-peak rate for residential TOU customers?**

14 A. Staff's proposed \$0.09841 per kWh off-peak rate is designed to recover approximately
15 \$2,005 in incremental base (excluding power costs) revenues, which represents
16 approximately 79 percent of the \$2,534 (\$2,918 total allocation less \$385 allocated to
17 customer charge) remaining incremental base revenues to be allocated to residential TOU
18 energy sales. As filed in the 2007 Test Year, 79 percent is the approximate ratio of off-
19 peak sales compared to total residential TOU sales.
20

21 **Q. Does Staff support the on-peak, off-peak kWh volumes proposed by SSVEC for the**
22 **residential TOU rate class?**

23 A. No. Staff recognizes that Mr. Hedrick estimates that nearly 35,000 off-peak kWhs will
24 migrate to on-peak (approximately 21 percent) due primarily to "... the change in on peak
25 hours, base charge and change in the standard residential rate." (response to Staff data
26 request WM 10-1). As has been discussed above and will be discussed below, Staff does

1 not support all of the changes proposed for on-peak hours, base charges and the standard
2 residential rate proposed by SSVEC. Consequently, Staff believes that prospective on-
3 peak, off-peak kWh residential TOU volumes will more closely conform to volumes
4 originally reported in the 2007 Test Year (Direct testimony, WHM-1, p. 1) if Staff's
5 recommendations are approved.

6
7 **Q. Does Staff support the on-peak time periods proposed by SSVEC for the residential**
8 **TOU rate class?**

9 A. Not entirely. Staff is aware that summer and winter on-peak hours proposed by SSVEC
10 are expected to increase from approximately 20 percent of total kWhs billed to
11 approximately 37 percent. For example, Sundays and holidays are proposed to include
12 on-peak hours. However, based on Test Year coincident peak ("CP") data filed by the
13 Cooperative (Schedule I-8.0 and Rebuttal Exhibit DH-20), Staff concludes that: (1)
14 SSVEC's CP was not coincident with Arizona Electric Power Cooperative, Inc.'s
15 ("AEPCO") CP during the Test Year, (2) SSVEC's CP never occurred on a Sunday during
16 the Test Year, and (3) AEPCO's CP never occurred on a Sunday during the year 2008.
17 These findings are significant because since January, 2008 SSVEC continues to receive
18 power from AEPCO, but as a partial requirements member. In addition, neither SSVEC
19 or AEPCO incurred respective system peaks on Sundays during the Test Year.
20 Consequently, Staff concludes that it would be inappropriate for SSVEC to include on-
21 peak hours on Sundays. Furthermore, Staff is concerned that SSVEC's residential TOU
22 rates have attracted less than 20 Test Year customers from a residential base consisting of
23 more than 40,000 customers. Staff applauds SSVEC for the accomplishments it has
24 achieved in offering TOU rate options to its members. However, Staff believes that
25 residential TOU rates that would include on-peak Sunday usage could discourage existing
26 or prospective residential customers from participating in TOU programs.

1 **Q. Recognizing that Staff separately recommended approval of its proposed customer**
2 **charges as filed, what are Staff's additional recommendations regarding its proposed**
3 **rate design for residential TOU customers?**

4 **A.** Supported by the discussions above, Staff recommends that its proposed residential TOU
5 revised on-peak rate, off-peak rate and TOU sales volumes be approved. In addition, Staff
6 recommends that the Commission not approve SSVEC's request to include residential
7 TOU on-peak Sunday hours.

8
9 **SERVICE CHARGE FEES**

10 **Q. Does staff agree with SSVEC's findings and recommendations regarding their**
11 **proposed service fees?**

12 **A.** No. Mr. Hedrick has incorrectly concluded that \$904,772 is the amount of increases
13 proposed by SSVEC for service fees. The figure quoted by Mr. Hedrick is actually the
14 increase to the "Other Revenue" category as proposed by SSVEC on Schedule N-1.0. The
15 other revenue category includes service charge fee revenues as adjusted by SSVEC in the
16 amount of \$603,308, along with revenues from Fort Huachuca, leased electric plant and
17 rent from electric properties (SSVEC's original filing, Schedule C-4.0). Using the
18 numbers reported in Mr. Hedrick's Rebuttal testimony, it would appear that Staff only
19 recommended average service fee charge increases of approximately 38 percent. This
20 correction is important to note because Staff proposed service fee increases that overall
21 amount to an increase of approximately 57 percent.

22
23 **Q. Are there any other reasons why Staff disagrees with SSVEC's recommendation to**
24 **accept the service fees proposed by SSVEC?**

25 **A.** Yes. Staff has actual labor index data from July 1993 to January 2008 as published in the
26 Handy-Whitman Bulletin ("HWB") for the Plateau Region that includes Arizona. The

1 data indicate an increase in labor costs equal to 59.4 percent, over that period, since
2 SSVEC's last rate case. All applicable service fees were increased at least 60 percent as
3 summarized on page 2 of WHM-2 in Staff's Direct testimony.

4
5 **Q. How does Staff resolve SSVEC's concern that the HWB only takes into consideration**
6 **labor costs?**

7 A. If one looks at Mr. Hedrick's Exhibit DH-21 filed with his Rebuttal testimony, it is clear
8 that the only two expense categories underlying service fees are labor and transportation.
9 Staff has properly addressed labor costs. Regarding transportation costs, the
10 overwhelming majority (81 percent) of calls occur during normal hours. SSVEC has
11 proposed a tariff change that allows SSVEC to collect mileage fees at the applicable IRS
12 rate per mile. Currently that mileage rate is capped at \$0.40 per mile. Staff did not
13 oppose this proposed tariff change in order to help the Cooperative offset transportation-
14 related expenses incurred while servicing its members.

15
16 **Q. What are Staff's recommendations regarding its proposed service fee charges as they**
17 **were designed in this Docket?**

18 A. Supported by the discussions above, Staff recommends that its proposed service fee
19 charges be approved as originally filed.

20
21 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

22 **Briefly summarize your Surrebuttal Testimony and recommendations.**

- 23 1. Staff recommends approval of its customer charges as summarized on page 1 of WHM-2
24 in Staff's Direct testimony.
- 25 2. Staff recommends approval of its proposed residential TOU revised on-peak rate of
26 \$0.16572 per kWh (WHM Surrebuttal Attachment 1).

1 3. Staff recommends approval of its proposed residential TOU off-peak rate of \$0.09841 per
2 kWh.

3 4. Staff recommends approval of its proposed residential TOU sales volumes as shown on
4 WHM-1, page 1 of Staff's Direct testimony.

5 5. Staff recommends that the Commission not approve SSVEC's proposal to include TOU
6 on-peak Sunday hours.

7 6. Staff recommends approval of its proposed service fee charges as summarized on page 2
8 of WHM-2 in Staff's Direct testimony.

9

10 **Q. Does this conclude your Surrebuttal testimony?**

11 A. Yes.

17 Residential - TOU	<u>Present Rates</u>	<u>Staff Proposed</u>	<u>Present Revenues</u>	<u>Proposed Revenues</u>	<u>\$ Delta</u>	<u>% Delta</u>
Monthly Customer Charge	\$11.40	\$13.25	\$2,371	\$2,756	\$385	16.23%
Cost Per KWh: On-Peak	\$0.14050	\$0.16572				
Cost Per KWh: Off-Peak	\$0.07319	\$0.09841				
Total Kwh Used: On-Peak	43,805	43,805	\$6,155	\$7,259	\$1,105	17.95%
Total Kwh Used: Off-Peak	166,197	166,197	\$12,164	\$16,356	\$4,192	34.46%
Kwhs in Minimum:	0	0	0	0		
Total Billings:	208	208				
Subtotal (kWh and \$)	210,002	210,002	\$20,690	\$26,371	\$5,681	27.46%
WPCA			\$2,797	\$0	(\$2,797)	-100%
Total Revenue			\$23,487	\$26,371	\$2,884	12.28%